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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of	)	
	)	
Wireless Telecommunications Bureau	)	WT Docket No. 97-82
Seeks Comment on Broadband PCS C	)	
and F Block Installment Payment Issues	)	

To: The Commission

COMMENTS OF AMERICALL INTERNATIONAL, LLC

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COMMENTS OF AMERICALL INTERNATIONAL, LLC

AmeriCall International, LLC ("AmeriCall") hereby submits its comments in the above-captioned proceeding. AmeriCall is a licensee holding nine C block broadband PCS licenses covering approximately 2 million pops and six F block broadband PCS licenses covering approximately 1.6 million pops. AmeriCall strongly urges the Commission to restructure the C block license debt and advocates adoption of a restructuring plan in which the Commission will:

- Adopt a 0% interest rate.
- Postpone repayment of principal until the thirteenth year after license grant.
- Restore of the priority of other creditors.
- Adopt an annual payment schedule.

Without at least these significant changes to the current structure, the Commission will not achieve either its public policy or its financial objectives.

I. Considerations Giving Rise to the Need for Significant C Block Restructuring

C block PCS licensees are faced with raising significant sums of capital in order to enter the telecommunications marketplace successfully.[1] Although government financing of license costs is a valuable benefit, the majority of required capital must be provided by outside lenders and investors. Over the last year since the C block auction ended, it has become apparent that neither debt providers such as equipment vendors and commercial institutions, nor equity sources such as Wall Street and the venture capital community are willing to finance most C block companies under current circumstances.

The fundamental problems that can be solved in this proceeding are (a) the current timing of interest payments places an unworkable burden on a start-up C block licensee and (b) the government's primary position on the license security interest roster gives rise to concern among potential lenders and investors in that they may have no recourse for recovering their investments should the government assert its interest.

A. The Current Timing of Interest Payments Places an Unworkable Burden on a Start-Up PCS Licensee

A typical C block PCS company will not turn operating cash flow positive before its fourth year, nor free cash flow positive before its fifth. As a result, expenditures for such purposes as repayment of government debt must be funded with the proceeds of equity investment. For young companies, equity is the most expensive form of capital, in many cases

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1 Attachment I provides a representative breakdown of the sources and costs of funds for a typical C block company.

costing in excess of 40% per year. More importantly, equity is a limited resource for all small businesses, especially during the start-up phase. If it must be used to repay government debt, then it cannot be used for such critical business start-up purposes as microwave relocation, buildout, staffing, or sales and marketing.[2] Further, as the amount required increases, equity may not be available at any price.

B. The Government's Primary Position on the License Security Interest Roster Still Gives Rise to Concern among Potential Lenders and Investors

Despite assurances by the Commission that it will work with troubled licensees to accommodate necessary restructurings, members of the financial community do not have confidence that investors will have the ability to recoup their investments through a forced sale of the licenses or similar action, should it become necessary. Without such a "backstop" on potential losses, providing financing to a C block PCS company is more risky and, therefore, less attractive.

[2] The Commission has repeatedly recognized the importance of access to capital to successful market entry, and the significant barrier that lack of access to sufficient capital presents to small businesses seeking to enter and compete in the broadband CMRS marketplace. See, e.g., Fifth Report and Order, Implementation of Section 309(j) of the Communications Act -- Competitive Bidding, 9 FCC Rcd at 5592 ¶ 137 (1994) ("Fifth Report and Order"); Notice of Proposed Rulemaking, Geographic Partitioning and Spectrum Disaggregation by Commercial Mobile Radio Services Licensees; Implementation of Section 257 of the Communications Act - Elimination of Market Entry Barriers, FCC 96-287, WT Docket No. 96-148; GN Docket No. 96-113, 1996 FCC LEXIS 3687, ¶¶ 11, 15 (1996). Moreover, in authorizing these spectrum auctions, Congress contemplated that the FCC should have the authority to designate alternative payment schedules in order to ensure the auction process does not inadvertently favor established businesses with existing revenue streams over new or small companies. See H.R. Rep. 103-111, 103d Cong., 1st Sess., at 255.

Compounding these issues are a number of external factors. First, wireless communications companies have performed poorly in the public markets, with many stocks trading at a 50% discount to their prices at the beginning of 1997. Second, PCS equipment vendors already have committed billions of dollars in debt financing for A and B block licensees, representing a significant portion of their capital designated for such purposes. As a result, C block licensees face an extremely difficult and expensive market for raising debt and equity capital. Most will not be able to raise the capital they require unless significant action is taken by the Commission.

II. Public Policy Objectives

In Section 309(j) of the Communications Act, Congress mandated that the Commission take steps to increase competition and increase opportunities for small businesses to participate in providing spectrum-based services. The C and F block auctions were designed to accomplish these objectives. Fifth Report and Order, ¶¶ 93, 95; Sixth Report and Order, PP Docket No. 93-253, 11 FCC Rcd 136 (1995). If a significant number of C block licensees, large or small, cannot obtain sufficient financing to become meaningful competitors or if they become insolvent or otherwise go out of business, the Congressional mandate will not be met. Further, the wireless communications marketplace will not be served. Less competition will mean (a) fewer choices for consumers, (b) higher prices for consumers, (c) slower buildouts, particularly in secondary and tertiary markets; and (d) a slower pace of innovation in development of products and services.

III. Financial Consideration

Although not the only concern at issue, the Commission is owed approximately $9 billion by C block licensees. Without a significant restructuring, this revenue will be lost as a consequence of debtor insolvency. Further, if the Commission is forced to reauction licenses, it is likely to regain merely a small fraction of this amount as the value reauction participants would place on licenses would be limited due to the significant competitive disadvantage the companies would face in entering the marketplace so late. More tangibly, it should be clear to the Commission from the lower prices paid for D, E, and F block licenses, as well as for WCS licenses that, in any case, its reauction revenues would be substantially lower.

IV. Scope of Restructuring

To enable C block PCS companies to obtain the financing they require to enter the marketplace and, thereby, achieve the Commission's public policy and financial objectives, two changes must be effected in regard to the structure of the C block debt. First, the net present value ("NPV") of C block license costs must be brought in line with their perceived value in the financial markets. Second, the Commission must accept a secondary position on the C block security notes to equipment financing sources.

A. The NPV of C Block License Costs Must Be Made Consistent with the NPV of F Block License Costs by Adopting a 0% Interest Rate and Postponing Repayment of Principal

C block companies will not be competing in the financial markets with A and B block companies. Most C block companies are start-up entities, which represent the riskiest form of investment. Most A and B block companies have profitable existing operations and are publicly-traded. As a result, they represent a different and far less risky class of investment. C block companies compete for investment capital with similar entities, *e.g.*, F block companies and, to a lesser extent, D and E block companies. Therefore, in order for C block companies to be perceived as suitable investments, the NPV of C block license costs must be consistent with the NPV of F block license costs.

The average price per pop paid in the F block was approximately $2.45.[3] The NPV of this amount, under the Commission's current payment schedule and assuming a 20% discount rate,[4] is approximately $1.68. F block licenses authorize operations utilizing an allocation of 10 MHz compared with C block licenses which authorize operations utilizing 30 MHz. Therefore, an appropriate target for the NPV of C block license costs is three times the NPV of F block license costs, or approximately $5 per pop.

Again assuming a 20% discount rate, the NPV of C block license costs under the Commission's current payment schedule is approximately $20 per pop. To achieve a reduction in NPV from $20 to $5, the Commission should implement the following two-part restructuring. First, the Commission should reduce the interest rate on C block debt to 0%, the effect of which will be to reduce the NPV of the C block debt to approximately $11 per pop. Second, the Commission should implement one of the two following alternatives to further reduce the NPV to the targeted $5 per pop average.

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[3] Based on <u>Market Statistics, Inc.</u> (1996).

[4] See Attachment I.

The Commission could postpone the repayment of principal until the 13th year after license grant, at which time principal would be repaid in eight equal annual installments, concluding in the 20th year. Because the government has a lower cost of capital than does the typical C block company, the effect of postponing repayment of principal is far more significant for C block companies than it is for the government. For example, if it is assumed that the cost of capital for the government is 7% (equal to the rate on 9 year, 11 month Treasury obligations as of the July 1996 auction of those notes) and the cost of capital for the typical C block company is 20%,[5] then the postponement of principal repayment will reduce the NPV of the dollars a C block company must pay by approximately 55% from $11 to $5 per pop, while reducing the NPV of the dollars the government will receive by only approximately 35%, from $23 to $15 per pop.

Alternatively, the Commission could reduce the principal amount to be repaid, but retain the same 10 year repayment schedule. Reducing the principal due by approximately 77.5% would achieve the same result as described above for the typical C block PCS company, *i.e.*, it would further reduce the C block license cost NPV to an average of $5 per pop. However, such a

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[5] See Attachment I.

principal reduction would reduce the NPV of the dollars the government would receive by nearly 65%, from $23 to $8 per pop.[6]

B. The Commission Should Grant Licensees the Right to Assure Other Lenders of Security Interest Priority

Based upon the current wording of the FCC rules and the C block license security agreements, a perception exists in the financial community that the licenses may cancel automatically and that the Commission may take back and reauction C block and F block licenses in the event of a default, bankruptcy, or the financial distress of a licensee. Consequently, other creditors and investors would suffer unduly significant financial losses.

This concern is most prevalent among equipment vendors. These companies are expected to provide a significant and critical component of most licensees' financing. Historically, such vendors have financed the deployment of wireless communications networks across the United States. In part, they were willing to do so because they had the security of being able to force a transfer or assignment of licenses should such action be required to ensure debt repayment. This added security is important because the value of equipment in a repossession is far less than its sale price.

Although the Commission has stated it will permit debtors to grant other creditors a security interest in proceeds upon transfer or assignment of a license, Amendment of Part 1 of the Commission's Rules, 1997 LEXIS 1117, ¶12 (February 28, 1997), financing sources have

6 A detailed presentation of these calculations is provided in Attachment II.

privately expressed concern in connection with the requirement, id., that such interests must be subordinated to the FCC security interest in the licenses. This subordination requirement is inconsistent with the historic right of licensees to determine the security interest priority of their lenders, often considering the amount and nature of the debt, in accord with the view that "[t]he right to receive such proceeds is a *private* right of the licensee that constitutes a *proprietary* interest in which a creditor may perfect a security interest."[7]

Therefore, without the ability to obtain meaningful and assured security on the licenses, the economics are not sufficient to induce vendors to provide the financing that has come to be expected in the cellular industry and among A, B, D, and E block licensees.

AmeriCall strongly urges the Commission to permit network equipment vendors and third party network equipment financing providers to have priority of security in connection with proceeds of C block license sales.

In addition, AmeriCall urges the Commission at a minimum to further clarify that the security agreements, despite their present wording, are intended to permit licensees to retain their proprietary interest in the collateral. Such a clarification would provide heightened assurance to potential passive investors as well as to small business control groups.

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7 Ridgely Communications, Inc., 1992 Bankr. 374, 377, 379, 70 RR 2d 1171 (Bankr. D. Md. 1992) (emphasis supplied); accord In re Atlantic Business Community Dev. Corp., 994 F. 2d 1069, 1074-75 (3d Cir. 1993); see also Walter O. Cheskey, DA 94-106, 9 FCC Rcd 986 (Mobile Serv. Div., rel. February 26, 1994); Bill Welch, FCC No. 88-338, 3 FCC Rcd 6502 (1988).

AmeriCall also recommends that the Commission move from a quarterly to an annual payment schedule for repayment of C and F block debt. Doing so will lighten the administrative burden both for the government and for licensees. AmeriCall believes that its energies should be devoted more toward building and operating a successful PCS company and less toward the administration of debt payments. Similarly, the Commission has manifested the desire to devote its energies more toward addressing the significant macro-level issues facing the communications industry and less toward the administration of debt collections.

V. Timing and Scale of Restructuring

AmeriCall encourages the Commission to act quickly to define and implement the restructuring plan proposed herein. The more time that passes before C block companies can be funded and proceed with operations, the less attractive an investment in such companies becomes. Further, C block companies have other financial obligations, from build out, salaries and office rent to payment of financial and legal consultants. The longer the period before these companies can be funded, the greater the likelihood that private resources will be depleted before subscriber revenues can avert a reauction.

AmeriCall urges the Commission to implement a sufficiently significant restructuring plan to ensure successful achievement of its public policy and financial objectives. If the Commission attempts to skirt the line and misses, it will have accomplished nothing.

A major installment plan overhaul is required. Minor patches could result in multiple insolvencies, widespread default and wholesale reauctions.

Respectfully Submitted,

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Attachment II

to comments of Americall International, LLC
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F Block:

Average Price per Pop	$2.45		Target
NPV @ 20%	$1.68	times 3 =	$5.05

C Block:

FCC C Block Debt Interest Rate	7.00%	U.S. Government Cost of Capital	7.00%
Proposed Interest Rate	0.00%	C Block Average Cost of Capital	20.00%

Average C Block Price per Pop $37.97
(based on 1995 pops)

	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Yr. 10
Existing Repayment Schedule	$6.19	$2.39	$2.39	$2.39	$2.39	$2.39	$10.94	$10.34	$9.74	$9.14

Net Present Value:
To Government @ 7% $37.97
To C Block Co.s @ 20% $19.94

	Yr. 1	Yr. 7	Yr. 8	Yr. 9	Yr. 10
Restructuring Step 1 (0% interest rate)	$3.80	$8.54	$8.54	$8.54	$8.54

Net Present Value:
To Government @ 7% $22.83
To C Block Co.s @ 20% $10.57

	Yr. 1	Yr. 13	Yr. 14	Yr. 15	Yr. 16	Yr. 17	Yr. 18	Yr. 19	Yr. 20
Restructuring Step 2 - Option A (postponement of principal payback)	$3.80	$4.27	$4.27	$4.27	$4.27	$4.27	$4.27	$4.27	$4.27

Net Present Value:
To Government @ 7% $14.87 — Represents Reduction in NPV from Step 1 of: 34.85%
To C Block Co.s @ 20% $5.00

	Yr. 1	Yr. 7	Yr. 8	Yr. 9	Yr. 10
Restructuring Step 2 - Option B (reduction of principal repaid)	$3.80	$2.12	$2.12	$2.12	$2.12

Represents Principal Reduction of: 73.89%

Net Present Value:
To Government @ 7% $8.33 — Represents Reduction in NPV from Step 1 of: 63.52%
To C Block Co.s @ 20% $5.00

Attachment I

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Typical C Block Capital Structure

Purpose of Financing	Form of Financing	Typical Provider of Financing	Typical Rate		Percent of Financing		WACC Contribution
Working Capital 1/	Equity	Private and Public Sources	35.00%	*	40.00%	=	14.00%
Network	Debt	Vendor or Third Party	12.00%	*	40.00%	=	4.80%
License	Debt	Government	7.00%	*	20.00%	=	1.40%
					100.00%		20.20%

Weighted Average Cost of Capital 2/ 20.20%

1/ Working Capital will be funded with equity for most C block companies. The effective rate will vary depending on the source (public vs. private), the timing (equity raised in Yr. 1 vs. equity raised in Yr. 4), and numerous company-specific factors.

2/ Weighted Average Cost of Capital (WACC) represents a common method of calculating the appropriate discount rate for a company.

CERTIFICATE OF SERVICE

I, Lisa Johnson, an administrative assistant in the office of AmeriCall International, LLC, do hereby certify under penalty of perjury that on this 23rd day of June, 1997, the foregoing Comments were delivered by hand to the Acting Secretary of the Federal Communications Commission and to the following persons:

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